

**FY 2003-04**  
**REGULATORY**  
**Executive Recommendation**

**Career Development**  
**Consumer and Industry Services**  
**Michigan Strategic Fund**



**Summary: Executive Budget Recommendation**  
**CAREER DEVELOPMENT**  
**FY 2003-04 Senate Bill 285**

**Analyst: Steve Stauff**

**FY 2003-04 Appropriation Recommendations**

	FY 2002-03 YTD (as of 3/6/03)	FY 2003-04 Executive	Difference: Exec to FY 2002-03 YTD	
			Amount	%
IDG/IDT	\$0	\$0	\$0	0.0
Federal	406,469,200	418,100,400	11,631,200	2.9
Local	15,011,900	15,011,900	0	0.0
Private	2,396,300	2,396,300	0	0.0
Restricted	7,661,500	6,664,700	(996,800)	(13.0)
GF/GP	26,572,800	24,706,700	(1,866,100)	(7.0)
<b>Gross</b>	<b>\$458,111,700</b>	<b>\$466,880,000</b>	<b>\$8,768,300</b>	<b>1.9</b>
FTEs	1,095.0	1,089.0	(6.0)	(0.5)

**Overview**

The Department of Career Development is charged with fostering the state's workforce development system. A primary duty is administration of various federal funding streams which support job readiness, job search, and employment training programs for various populations. These include the state's Work First program for welfare recipients, the Michigan Rehabilitation Services unit which supports vocational programs for the disabled, and general job search/training programs for adults and youth. Most direct services in these areas are provided through a network of 25 regional Michigan Works! agencies across the state. Almost 90% of the budget is financed through federal revenue.

**Summary of Major Budget Issues**

***Council of Michigan Foundations***

Proposed budget contains a \$1.0 million reduction in the tobacco settlement appropriation for the Council. The overall appropriation stands at \$1.0 million in the proposal—down from \$6.0 million in FY 2001 prior to subsequent Executive Order reductions. Boilerplate revisions earmark all of the remaining appropriation to local smoking prevention and cessation efforts.

***Elimination of Pre-College Program Grants***

Current appropriation of \$900,000 for "Pre-college Programs in Engineering and the Sciences" is eliminated in the Governor's budget proposal. The appropriation is allocated to two programs in the Detroit and Grand Rapids areas which provide math and science programs for disadvantaged youth interested in engineering and science careers.

***GF/GP Support for Michigan Works! Service Centers***

The Executive Budget contains a reduction of \$180,000 in GF/GP support for the state's 104 Michigan Works! Service Centers. The centers house a variety of job training and employment service programs aimed at numerous populations (e.g., unemployed, welfare recipients, disabled individuals). They serve as a single point of contact for individuals interested in accessing state services in these areas. The GF/GP subsidy provided in the current budget assists the centers in meeting general administrative expenses.

***Administrative Savings***

The Governor has proposed consolidating the Department of Career Development with the Department of Consumer and Industry Services. However, the executive order to implement the consolidation has not yet been finalized. As a result, separate budgets are proposed for each individual department. In order to reflect anticipated

savings that will result from the consolidation, a generic negative GF/GP appropriation of \$539,400 is included in the Career Development budget.

<b>Major Budget Changes from FY 2002-03 YTD Appropriations:</b>		<b>YTD FY 2002-03</b>	<b>Executive Change</b>
<b>1. Council of Michigan Foundations</b> Executive recommendation reduces the grant appropriation to the Council of Michigan Foundations by \$1.0 million. Beginning in FY 1999-2000, tobacco settlement revenue has been allocated to this initiative. The Council re-grants the appropriated dollars to various community foundations around the state. Community foundations then use the funding to support local youth and senior health initiatives. Overall appropriation for the initiative has fallen from \$6.0 million to the currently proposed level through recent Executive Order reductions. New boilerplate proposed by the Executive would earmark all remaining funds to programs related to smoking prevention and cessation.	<b>Gross</b>	<b>\$2,000,000</b>	<b>(\$1,000,000)</b>
	Restricted	2,000,000	(1,000,000)
<b>2. Pre-College Programs in Engineering and the Sciences</b> Grant funding for two regional pre-college educational programs would be eliminated under the Governor's budget proposal. For FY 2002-03, the Detroit Area Pre-college Engineering Program (DAPCEP) and the Grand Rapids Area Pre-college Engineering Program (GRAPCEP) received state support through the DCD budget. The Detroit program received an allocation of \$534,100, while the Grand Rapids program received \$365,900. Both programs provide special math and science programs for disadvantaged youth interested in science and engineering careers.	<b>Gross</b>	<b>\$900,000</b>	<b>(\$900,000)</b>
	GF/GP	\$900,000	(\$900,000)
<b>3. Michigan Works! Service Centers Administration</b> The Governor's budget removes most the remaining general fund subsidy for operation of the state's Michigan Works! Service Centers. Beginning in FY 2000-01, a GF/GP appropriation of \$1.2 million was provided to support central administrative activities within the centers. Each center houses a variety of workforce development programs, most of which are financed through different federal funding streams. The GF/GP support was provided to help subsidize general administrative activity not specifically related to any one program. Federal funding was used to offset \$1.0 million of the GF/GP support during FY 2002-03 budget deliberations. This action would remove all but \$10,000 of the remaining GF/GP subsidy.	<b>Gross</b>	<b>\$1,190,000</b>	<b>(\$180,000)</b>
	Federal	1,000,000	0
	GF/GP	\$190,000	(\$180,000)
<b>4. Administrative Reductions</b> In anticipation of the proposed consolidation of the DCD with the Department of Consumer and Industry Services, the Executive proposal removes \$539,400 of GF/GP appropriations supporting Department administrative activities. This includes elimination of the remaining FY 2002-03 appropriation of \$110,000 for the DCD's "Unclassified Salaries" line item as well as a reduction of \$429,400 to the Department's "Administration" line item. The Department currently has no filled unclassified positions pending the executive reorganization. The reduction to "Administration" will be met by eliminating administrative costs duplicated in both departments as estimated by the Department of Management and Budget.	<b>Gross</b>	<b>\$7,039,700</b>	<b>(\$539,400)</b>
	Federal	4,501,100	0
	Restricted	417,900	0
	GF/GP	\$2,120,700	(\$539,400)

**Major Budget Changes from FY 2002-03 YTD Appropriations:****5. Non-GF/GP Reductions - Executive Order 2003-3**

The Governor's proposal includes a number of non-general fund appropriation reductions related to GF/GP cuts implemented through Executive Order 2003-3. The action reflects a reduction in federal appropriations that were tied to GF/GP matching funds removed in the executive order. Reductions include \$128,400 in federal Perkins Act funding for vocational education programs and \$287,100 in federal vocational rehabilitation dollars.

	YTD FY 2002-03	Executive Change
<b>Gross</b>	<b>N/A</b>	<b>(\$415,500)</b>
Federal	N/A	(415,500)

**6. Federal Trade Adjustment Assistance**

The budget reflects an increase in available federal revenue to assist dislocated workers impacted by the North American Free Trade Agreement (NAFTA). An additional \$11.0 million is included in the budget to cover services provided to program participants. Enrollment in the program has increased in recent years.

<b>Gross</b>	<b>\$5,000,000</b>	<b>\$11,000,000</b>
Federal	5,000,000	11,000,000

**7. Other Federal Funding Changes**

Federal authorization is increased to account for increased federal revenues available to support administration of adult education programs (\$150,000) and to support enhancements to the state's labor market information programs (\$992,300).

<b>Gross</b>	<b>N/A</b>	<b>\$1,142,300</b>
Federal	N/A	1,142,300

**8. Early Retirement Savings**

The proposed budget includes a \$238,500 reduction from FY 2002-03 appropriations to account for the final portion of anticipated savings achieved under the recent state early retirement option. While the bulk of early retirement savings were incorporated into the FY 2002-03 budget, a number of state employees maintained their positions into the early portions of FY 2002-03 and appropriations were adjusted to reflect this. The FY 2003-04 recommendation includes adjustments to recognize these additional savings in various DCD operating line items.

<b>Gross</b>	<b>N/A</b>	<b>(\$238,500)</b>
GF/GP	N/A	(\$238,500)

**Major Boilerplate Changes from FY 2002-03:****Sec. 303. Local Matching Rate for Facilities Establishment Grants - DELETED**

Provides that local match requirement for vocational rehabilitation facilities establishment grants not exceed 21.3%. Grants are provided to local community rehabilitation organizations to support activities aimed at assisting disabled individuals to obtain employment. The Executive deletes this section.

**Sec. 305. Work First Program - MODIFIED**

Establishes specific guidelines for administering the Work First program. The Executive modifies the language by eliminating references to "federal work participation requirements" and instead generically referring to work participation requirements in boilerplate. The action is taken to account for recent legislation which allows the Department to increase work requirements in certain situations to levels that exceed the minimum federal requirements.

**Sec. 306. Report on Outcomes for Work First Participants - MODIFIED**

Current law requires the Department to acquire longitudinal data on Work First participants regarding their employment and salary situation, benefits coverage, job retention, and general welfare. The Executive amends the language to provide that the Department "make reasonable efforts" to include the listed data in a report "to the extent of available funding."

**Sec. 311. Disabled Veterans Outreach Program - DELETED**

Requires certain staffing levels for disabled veterans outreach program specialists and local veterans employment representatives to assist veterans within Michigan Works! employment services offices as well as other administrative requirements for serving veterans. The Executive deletes the section.

**Sec. 312. Volunteer Investment Grants - DELETED**

Requires the Department to report to the Legislature on the distribution of Volunteer Investment Grants by the Michigan Community Service Commission. The Executive removes the section.

**Sec. 313. Council of Michigan Foundations - MODIFIED**

Current law provides that the tobacco settlement revenue appropriation to the Council of Michigan Foundations be distributed to support local community efforts to address youth and senior health needs. The appropriation for this purpose was reduced by \$1.0 million in the Executive proposal. The Executive amends the boilerplate language to earmark the remaining appropriation to support local smoking prevention and cessation efforts.

**Sec. 319. Adult Education Program - DELETED**

Establishes legislative intent that at least \$75 million in adult education funding be administered through the existing process outlined in the School Aid Act and limits the amount distributed through any alternative process to \$20.0 million. The Executive deletes this section.

**Sec. 320. Medicaid Buy-In Program - DELETED**

Current law requires the Department to work with the Department of Community Health to establish a Medicaid buy-in program for the working disabled. The Executive deletes the language.

**Sec. 321. King-Chavez-Parks Program - MODIFIED**

Current law requires the Department to market the King-Chavez-Parks program to parents and students and to report to the Legislature on these marketing efforts. The program's aim is to boost graduation rates for populations that have been traditionally under-represented within the higher education system. It also requires that the program be administered in the same manner as it was formerly when it was contained in the Department of Education. The Executive amends the language to remove the reporting requirement and the intent language regarding administration of the program.

**Sec. 325. Support for Michigan Works! Service Centers - DELETED**

Current boilerplate language requires that the Department allocate sufficient funds to the state's 104 Michigan Works! Service Centers to allow the centers to remain fully operational. The Executive deletes the language.

**Summary: Executive Budget Recommendation**  
**CONSUMER AND INDUSTRY SERVICES**  
**FY 2003-04 Senate Bill 286**

**Analyst: Steve Stauff**

**FY 2003-04 Appropriation Recommendations**

	FY 2002-03 YTD	FY 2003-04	Difference: Exec to FY 2002-03 YTD	
	(as of 3/6/03)	Executive	Amount	%
IDG/IDT	\$111,100	\$111,100	\$0	0.0
Federal	241,911,500	283,831,500	41,920,000	17.3
Local	0	0	0	0.0
Private	770,000	770,000	0	0.0
Restricted	273,487,300	285,815,300	12,328,000	4.5
GF/GP	32,900,464	19,669,800	(13,230,664)	(40.2)
<b>Gross</b>	<b>\$549,180,364</b>	<b>\$590,197,700</b>	<b>\$41,017,336</b>	<b>7.5</b>
FTEs	4,012.4	4,001.0	(11.4)	(0.3)

**Overview**

The Department of Consumer and Industry Services (CIS) is the state's primary regulatory agency. The Department has responsibility for a diverse set of programs, including the state's unemployment and worker's compensation systems, enforcement of industrial and occupational safety laws, regulation of specific industry groups (e.g., banking, public utilities), and licensing and regulation of occupational groups and regulated facilities. Over 90% of the budget is financed through either regulatory fee/assessment revenue or federal funding.

**Summary of Major Budget Issues**

***Fee Increases Offset GF/GP Appropriations***

Contains new restricted revenue appropriations of \$10.6 million to be financed through increased fees. The new fees are then used to offset an equivalent amount of GF/GP appropriations. The proposal would increase corporate annual report filing fees; licensing and registration fees imposed on security agents, investment advisors, and security brokers/dealers; occupational licensing fees in a number of fields; and licensing and construction review fees on health facilities such as hospitals, nursing homes, and substance abuse programs.

***Consolidation of Office of Fire Safety***

Includes a proposal to merge the Office of Fire Safety into the Bureau of Construction Codes. The current Office of Fire Safety administers on-site inspections and construction plan reviews of certain types of facilities protected by state fire safety statutes (e.g., schools, hospitals). General Fund/General Purpose appropriations are reduced by \$856,600 as a result of the consolidation.

***Elimination of the Worker's Compensation Appellate Commission***

Removes \$284,500 in restricted revenue funding for the Worker's Compensation Appellate Commission. The Commission's current duties in handling worker's compensation appeals will be transferred elsewhere within the Department. The restricted fund savings would lapse to the general fund and thus be available for other programming.

***Increased Federal Funding for Section 8 Vouchers***

Additional federal revenues of \$42.0 million are appropriated to support the Section 8 rental subsidy program administered by the Michigan State Housing Development Authority. Funds provide rental assistance to eligible low-income individuals.

**Administrative Savings**

The Governor has proposed consolidating CIS with the Department of Career Development. A generic negative GF/GP appropriation of \$200,000 is included in the budget for administrative savings. This reflects anticipated savings to be achieved with consolidation.

<b>Major Budget Changes from FY 2002-03 YTD Appropriations:</b>		<b>YTD FY 2002-03</b>	<b>Executive Change</b>
<b>1. Fee Increases Offset GF/GP Appropriations</b>	<b>Gross</b>	<b>N/A</b>	<b>\$0</b>
The Executive proposal includes the appropriation of \$10.6 million in state restricted revenue that is to be generated by a number of proposed fee increases. The new appropriations are used to offset GF/GP appropriations within the budget. The Executive proposes increases for corporate annual report and document filing fees, registration fees for investment advisors and securities brokers/agents, licensing-related fees for a number of different occupational fields, and licensing and regulatory fees imposed on different health facilities. It is estimated that the fee increases will generate roughly \$12.7 million in additional revenue annually. The relevant sections of state statute setting these fees are incorporated into the budget's boilerplate sections. This would allow future increases to be determined within the budget bill. Legislative action amending existing statutes would be necessary to implement these increases.	Restricted	N/A	10,600,000
The table below highlights the amount of new revenue offsetting GF/GP by appropriation unit:	GF/GP	N/A	(\$10,600,000)
Executive Direction . . . . .	1,409,600		
Management Services . . . . .	1,431,300		
Health Regulatory Systems . . . . .	600,000		
Safety and Regulation . . . . .	4,702,400		
Worker's and Unemployment Compensation . . . . .	2,309,300		
Information Technology Services and Projects . . . . .	147,400		
<b>Total . . . . .</b>	<b>\$10,600,000</b>		
<b>2. Worker's Compensation Appellate Commission</b>	<b>Gross</b>	<b>\$1,514,100</b>	<b>(\$908,700)</b>
The Executive proposes the elimination of the Worker's Compensation Appellate Commission. The commission acts as an appeals body for cases handled by the Worker's Compensation Board of Magistrates. The duties of the Appellate Commission will be transferred to another area within the department, although no specific plan has yet been forwarded on this issue. Within the budget, \$624,200 is removed from the "Unclassified Salaries" line item (reflecting commission salaries) and another \$284,500 is taken from the "Appellate Commission Administration" line item (fringe benefits for the commission). Appropriations of \$605,400 covering support staff for the commission are retained in the budget. These staff will be re-assigned elsewhere within the department.	Restricted	1,514,100	(908,700)
<b>3. Fire Safety / Construction Codes Merger</b>	<b>Gross</b>	<b>\$13,783,300</b>	<b>\$0</b>
The Executive budget includes a proposed consolidation of the Office of Fire Safety (OFS) into the department's Bureau of Construction Codes. The OFS conducts inspections and plan reviews of renovations occurring at certain facilities covered by state fire safety laws. The proposal merges the unit within the Bureau with overall responsibility for the enforcement of state construction standards. Along with the merger, the budget includes a fund shift replacing \$856,600 in GF/GP appropriations with restricted revenue.	Federal	872,300	0
	Restricted	12,046,700	856,600
	GF/GP	\$864,300	(\$856,600)



<b>Major Budget Changes from FY 2002-03 YTD Appropriations:</b>		<b>YTD FY 2002-03</b>	<b>Executive Change</b>
<b>4. Section 8 Rental Subsidies</b>		<b>Gross</b>	
An additional \$42.0 million in federal revenue is appropriated to reflect increased funds for use in providing Section 8 rental vouchers to low-income individuals. The voucher program is administered by the Michigan State Housing Development Authority and helps to subsidize rental costs for eligible individuals. Recent activity in this area has increased due to an "opt out" provision in a non-active Section 8 program. Under the "opt-out", developers are allowed to convert rents to market rates after a fixed period of time (normally 15 years). When developers do choose to opt out, HUD offers low-income tenants an enhanced Section 8 rental subsidy to ease the impact of the switch from the lower mandated rent levels to market-based rents. Since MSHDA administers many of these enhanced Section 8 vouchers, federal funding to MSHDA for Section 8 subsidies has increased substantially.		<b>Federal</b>	
		\$78,000,000	\$42,000,000
		78,000,000	42,000,000
<b>5. Restricted Revenue Fund Shifts</b>		<b>Gross</b>	<b>\$0</b>
In addition to the fee increases in item 1 above, the Governor's budget proposal includes fund shifts replacing GF/GP appropriations in two other areas. First, \$450,000 in additional federal Child Care Development Fund appropriations are added to the budget to offset GF/GP appropriations which had been used to support administrative staff in the day care licensing area. Second, an additional appropriation of \$153,500 in available Health Professions Regulatory Fund proceeds will be used to offset GF/GP in supporting the regulation of health professionals.		<b>Federal</b>	450,000
		<b>Restricted</b>	153,500
		<b>GF/GP</b>	(\$603,500)
<b>6. Early Retirement Adjustments</b>		<b>Gross</b>	<b>(\$739,800)</b>
The proposed budget includes a \$739,800 reduction from FY 2003 appropriations to account for the final portion of anticipated savings achieved under the recent state early retirement option. While the bulk of early retirement savings were incorporated into the FY 2003 budget, a number of state employees maintained their positions into the early portions of FY 2003 and appropriations were adjusted to reflect this. The FY 2004 recommendation includes adjustments to recognize these additional savings in various CIS operating line items.		<b>GF/GP</b>	(\$739,800)
<b>7. Administrative Savings</b>		<b>Gross</b>	<b>\$0</b>
In anticipation of the proposed consolidation of the CIS with the Department of Career Development, the Executive proposal includes a negative \$200,000 GF/GP appropriation in a generic "Administrative Savings" line item to reflect anticipated savings resulting from the consolidation. The negative appropriation would be eventually be applied to other line items in the budget through the legislative transfer process, although no boilerplate language is included to require such a transfer.		<b>GF/GP</b>	(\$200,000)
			(\$200,000)

**Major Boilerplate Changes from FY 2002-03:**

**Sec. 211. Re-appropriation of Lapsed FY 2002-03 Funding - NEW**

The Executive includes new language appropriating for FY 2003-04 up to one-half of any GF/GP appropriations lapsed at the end of FY 2002-03. However, this would only apply to GF/GP appropriations made for salary/wage expenses, contractual services, supplies and materials expenses, information technology or program operations. Apparently, it would not include appropriations for non-operational expenses such as grants. The section includes intent language noting that the action is taken to encourage administrative efficiencies during FY 2002-03. The re-appropriation would be contingent upon the approval of the State Budget Director and the new appropriations would have to be used for the same purposes as the original FY 2002-03 appropriations.

**Secs. 332 through 337. Fee Adjustments within Boilerplate - NEW**

The Executive adds six new sections which effectively incorporate within boilerplate a number of fees currently provided for in statute. In addition to moving the fees into boilerplate, most of the fees in these sections are also adjusted upward as part of a revenue enhancement proposal from the Executive. The sections include fee increases for a) annual report and document filings for various types of business organizations; b) registration fees for investment advisors and securities brokers, dealers, and agents; c) application and licensing fees for various professional and occupational groups; and d) licensing and other regulatory fees imposed on health facilities. Overall, the fee increases are expected to generate additional revenue of around \$12.7 million.

**Sec. 305. Eliminate Per Diem Payment Specifications - DELETED**

Current law authorized the use of appropriations for \$50 per diem payments for members of various boards and commissions operating within the Department. The Executive deleted this language.

**Sec. 312. Nursing Home Inspector Levels - DELETED**

Current law requires a minimum staffing level of 113 nursing home inspectors. The section also requires on-site complaint investigations of long-term care facilities on nights and weekends where such off-hour inspections are warranted by the severity of allegations. The Executive eliminates this section.

**Sec. 318. Nursing Home Complaint Investigation Backlog - DELETED**

The Executive deletes this section of current law which requires a report on the status of the Department's nursing home complaint investigation backlog. Recent reports under this section have indicated that no backlog exists.

**Sec. 320. Unemployment Offices in the Upper Peninsula - DELETED**

Current law requires that during the transition to a remote filing system for unemployment benefits, the Department maintain sufficient offices in the Upper Peninsula to ensure that citizens of the Upper Peninsula can access offices without excessive travel and/or long-distance calling charges. The Executive eliminates the section given that the new system is expected to be operational prior to FY 2003-04.

**Sec. 325. Internet Information on Nursing Homes and Day Care Facilities - DELETED**

The Executive eliminates this section of current law which requires the Department to post executive summaries of nursing home inspections on the Internet and that the Department work towards posting summaries of day care inspections on the Internet.

**Sec. 326. MIOSHA Staffing Levels - DELETED**

The Executive deletes language which requires specific staffing levels for general industry and construction industry safety inspectors as well as industrial hygienists. The section also prohibits taking any budgetary savings from the funding for inspection staffing.

**Sec. 327. Hiring Nursing Home Inspectors - DELETED**

Current law requires the Department to make every effort to hire individuals with long-term care industry experience when hiring new nursing home inspectors. The Executive deletes the section.

**Sec. 330. Unemployment Remote Initial Claims System - DELETED**

Current law imposes certain requirements on the Department regarding the phone system developed to take in remote claims for unemployment benefits. Specifically, the Department is required to provide callers with an option within the system to speak with an employee of the Unemployment Agency and to continue to provide training to Unemployment Agency employees affected by implementation of the new system. The Executive deletes the section.

**Sec. 332. Location of Administrative Hearings - DELETED**

The Executive deletes this section which establishes legislative intent that the Department make every effort to hold administrative law hearings within 150 miles of affected individuals or businesses.

**Sec. 334. Day Care Facilities to Inspector Ratio - DELETED**

Current law requires the Department to make every effort to maintain a day care facility to day care inspector ratio of 210 to 1. The Executive deletes the section.

**Sec. 335. Low-Income and Energy Efficiency Assistance Program - DELETED**

Current law requires reporting from the Department on the Low-Income/Energy Efficiency Assistance Program. The Executive deletes the section. The Executive also does not include vetoed language from FY 2002-03 earmarking \$3.0 million from the fund to community action agencies across the state.

**Sec. 338. Center for Nursing - DELETED**

Earmarks \$125,000 in restricted revenue appropriations to a Center for Nursing in an effort to deal with current nursing shortages. The Executive deletes the section.

# Summary: Executive Budget Recommendation

## MICHIGAN STRATEGIC FUND

### FY 2003-04 Senate Bill 285

**Analyst: Steve Stauff**

#### FY 2003-04 Appropriation Recommendations

	FY 2002-03 YTD	FY 2003-04	Difference: Exec to FY 2002-03 YTD	
	(as of 3/6/03)	Executive	Amount	%
IDG/IDT	\$100,900	\$100,900	\$0	0.0
Federal	62,953,300	52,953,300	(10,000,000)	(15.9)
Local	0	0	0	0.0
Private	853,100	853,100	0	0.0
Restricted	32,550,000	10,050,000	(22,500,000)	(69.1)
GF/GP	40,426,100	35,555,900	(4,870,200)	(12.0)
<b>Gross</b>	<b>\$136,883,400</b>	<b>\$99,513,200</b>	<b>(\$37,370,200)</b>	<b>(27.3)</b>
FTEs	231.5	231.5	0.0	0.0

#### Overview

The Michigan Strategic Fund (MSF) Agency administers the state's economic development programs and initiatives. Currently housed as an autonomous agency within the Department of Management and Budget, the MSF administers most of its programming through the Michigan Economic Development Corporation (MEDC)—which is a public corporation representing a partnership between the state-level MSF and various local economic development agencies. MEDC programs include the Life Sciences Corridor initiative to encourage the commercialization of life sciences research, the state's tourism promotion efforts, business attraction and incentive programs, and general efforts to market the state as a business location.

#### Summary of Major Budget Issues

##### ***Technology Tri-Corridor***

Replaces the current \$32.5 million tobacco settlement appropriation for the Life Sciences Corridor initiative with a \$10.0 million tobacco settlement appropriation for a new "Technology Tri-Corridor." The current program provides funding to universities and private facilities to support research and development in the life sciences as well as the commercialization of innovations that come out of the research. The new Tri-Corridor would broaden this focus to include the areas of automotive technology and homeland security. The MEDC is also examining its current funding commitments in an effort to find another \$10.0 million from its internal corporate funds that could be re-allocated to support this program.

##### ***Economic Development Job Training Grants***

Program is reduced by \$2.3 million in the Executive proposal. The proposed appropriation of \$10.0 million would continue to be granted to eligible training providers who deliver customized job training to Michigan businesses. The Executive Budget also includes significant changes to the related boilerplate language. The program is restructured to allow for collaborative grants to assist multiple businesses; and current earmarks for community colleges and private sector training providers are removed. Finally, match requirements for participating businesses are increased.

**Michigan Promotion Program**

The state's tourism advertising and marketing program is reduced by \$700,000 to a new level of \$5.7 million under the proposal. The program supports tourism advertising campaigns in targeted regional markets as well as tourism publications and market research.

**Reduction in Community Development Block Grant Authorization**

Appropriation is reduced by \$10.0 million under the proposal to a new level of \$50.0 million. The action represents an adjustment to the appropriation to reflect available federal revenue, not an actual reduction in programming.

**Major Budget Changes from FY 2002-03 YTD Appropriations:**

**1. Technology Tri-Corridor**

The Executive recommendation calls for replacement of the \$32.5 million appropriation in FY 2002-03 for the Life Sciences Corridor with a reduced \$10.0 million appropriation for a new Technology Tri-Corridor. The Tri-Corridor would expand the emphasis of the current Life Sciences initiative to include the areas of homeland security and automotive technology. The initiative would seek to encourage research and the eventual commercialization of technologies in these three areas. Both the original program and the newly proposed program are financed with tobacco settlement revenues. The Administration has indicated that the Michigan Economic Development Corporation is working to identify another \$10.0 million of its own internal corporate revenues that could be used to provide additional support to the program. These corporate funds would be re-allocated to this initiative from other existing MEDC commitments.

	<b>YTD FY 2002-03</b>	<b>Executive Change</b>
<b>Gross</b>	<b>\$32,500,000</b>	<b>\$10,000,000</b>
Restricted	32,500,000	10,000,000

**2. Economic Development Job Training Grants**

Appropriations for the grant program would be reduced by 18.6% in the Executive proposal. Funds are utilized to support the development and delivery of customized job training curricula for specific Michigan businesses seeking to retain or attract jobs. The program has seen significant reductions in recent years, with the appropriation falling from a high of \$31.0 million in FY 1999-2000. Significant boilerplate changes also alter the structure of the current program in a number of ways (see Boilerplate Changes below).

<b>Gross</b>	<b>\$12,348,000</b>	<b>\$10,048,000</b>
GF/GP	\$10,048,000	\$10,048,000

**3. Michigan Promotion Program**

The appropriation for the state's tourism promotion activities is reduced by \$700,000 in the Executive Budget (a 10.9% reduction from FY 2002-03). The line item primarily supports advertising campaigns in targeted markets that promote Michigan as a vacation destination. Smaller amounts are used for tourism publications and market research. The appropriation had reached just over \$8.0 million in FY 1999-2000.

<b>Gross</b>	<b>\$6,417,500</b>	<b>\$5,717,500</b>
GF/GP	\$6,417,500	\$5,717,500

**4. Community Development Block Grants**

The budget recommendation includes a \$10.0 million reduction in the federal appropriation for Community Development Block Grants. The reduction is implemented to bring the appropriation down to a level which reflects available funding and historical expenditures. Thus, it does not reflect an actual reduction in programming.

<b>Gross</b>	<b>\$0</b>	<b>(\$10,000,000)</b>
Federal	0	(\$10,000,000)

**5. MEDC Operating Costs**

Appropriations supporting the economic development programs and staff of the Michigan Economic Development Corporation are reduced by just under \$1.5 million. This represents a 6.8% decrease in state GF/GP support for the MEDC's general operations. Reductions will impact both the general administration of the MEDC and MEDC individual economic development programs.

<b>Gross</b>	<b>\$25,617,900</b>	<b>(\$1,480,400)</b>
Federal	2,953,300	0
Restricted	50,000	0
Other	954,000	0
GF/GP	\$21,660,600	(\$1,480,400)

**Major Budget Changes from FY 2002-03 YTD Appropriations:****6. Early Retirement Reduction**

The proposed budget includes a \$389,800 reduction from FY 2002-03 appropriations to account for the final portion of anticipated savings achieved under the recent state early retirement option. While the bulk of early retirement savings were incorporated into the FY 2002-03 budget, a number of state employees maintained their positions into the early portions of FY 2002-03 and appropriations were adjusted to reflect this. The FY 2003-04 recommendation includes adjustments to recognize these additional savings in the MEDC's operating line items.

	YTD FY 2002-03	Executive Change
<b>Gross</b>	<b>\$25,617,900</b>	<b>(\$389,800)</b>
Federal	2,953,300	0
Restricted	50,000	0
Other	954,000	0
GF/GP	\$21,660,600	(\$389,800)

**7. Administrative Savings**

In anticipation of the proposed consolidation of the CIS with the Department of Career Development, the Executive proposal includes a negative \$200,000 GF/GP appropriation in a generic "Administrative Savings" line item to reflect anticipated savings resulting from the consolidation. The negative appropriation would be eventually be applied to other line items in the budget through the legislative transfer process, although no boilerplate language is included to require such a transfer.

<b>Gross</b>	<b>\$0</b>	<b>(\$200,000)</b>
GF/GP	\$0	(\$200,000)

**Major Boilerplate Changes from FY 2002-03:****Sec. 211. Re-Appropriation of Lapsed FY 2002-03 Funding - NEW**

The Executive includes new language appropriating for FY 2003-04 up to one-half of any GF/GP appropriations lapsed at the end of FY 2002-03. However, this would only apply to GF/GP appropriations made for salary/wage expenses, contractual services, supplies and materials expenses, information technology or program operations. Apparently, it would not include appropriations for non-operational expenses such as grants. The section includes intent language noting that the action is taken to encourage administrative efficiencies during FY 2002-03. The re-appropriation would be contingent upon the approval of the State Budget Director and the new appropriations would have to be used for the same purposes as the original FY 2002-03 appropriations.

**Sec. 401. Economic Development Job Training (EDJT) Grants - MODIFIED**

Current law provisions outline the process and establish policies and procedures for administration of the EDJT grant program. The program provides grants to training providers (e.g., community colleges) to support development and delivery of customized job training programs for specific Michigan businesses. The Executive makes a number of changes which significantly impact the program. Most significantly, the program is split into two separate components: the Business Response Program and the Manufacturing Competitiveness Program. The Business Response Program, which essentially reflects the existing program, is allocated up to \$7.0 million of the overall appropriation. The new Manufacturing Competitiveness Program will receive an allocation of up to \$4.0 million. This component of the program will seek to encourage collaborative training efforts benefiting multiple companies. Under the current program, a training provider typically receives a grant for job training targeting a single firm.

Other changes include removal of current earmarks of grant funds for community colleges and private sector training providers. Historically, boilerplate has allocated 70% of EDJT grant funds to community colleges or to training consortia led by a community college. This earmark was increased to 90% in FY 2002-03. In addition, existing match requirements for participating businesses are increased from 25% to 30% of the grant award. Limits for administrative costs are increased for the MEDC from 5% of the appropriation to a flat \$800,000 limit (around 8% of the appropriation), while the percentage of grant funds a training provider can expend on administrative costs is reduced from 12% to 10%. Finally, current provisions allowing EDJT funds to be used for worker recruitment and university research matching funds are eliminated.

**Sec. 403. Michigan Strategic Fund Programs - DELETED**

Requires the agency to report on all activities, grants, and investment programs financed from Michigan Strategic Fund revenue generated from investment income or gaming revenues. The Executive deletes the section. However, related language is added to existing Section 407.

**Sec. 405. Promotion Program Funding for Cultural Tourism - DELETED**

The section allocates at least 25% of all Michigan Promotion Program funds for the promotion of cultural tourism. The Executive deletes the language.

**Sec. 407. MEDC Program Reporting Requirements - MODIFIED**

Current law requires the agency to report to the Legislature on the activities of each program administered by the Michigan Strategic Fund Agency or the Michigan Economic Development Corporation, including details on spending and FTEs employed. The Executive amends the language to require reporting on grants and investments financed from Michigan Strategic Fund Indian gaming and investment revenues. However, the new section, as written, appears to limit reporting to activities funded only with investment/gaming revenues, eliminating general reporting on activities financed through state appropriations.

**Sec. 410. Life Sciences Corridor / Technology Tri-Corridor - MODIFIED**

Existing language provides for distribution of the Life Science Corridor appropriation through a 14-member steering committee. It allocates up to \$2.5 million for administering the initiative and not less than \$5.0 million to a commercial development fund to support commercialization opportunities evolving from life sciences research. Of the remaining funds, 45% is earmarked for basic research in the life sciences and 55% is allocated for collaborative life sciences research with an emphasis on testing or developing emerging technologies. Eligibility requirements are outlined for grant category.

The Executive modifies the current language in accordance with the Technology Tri-Corridor proposal, which would expand the scope of the program to include not only life sciences, but also homeland security and automotive research. A new 17-member steering committee is proposed, including new committee designations for the Director of the Department of Consumer and Industry Services and the State Treasurer. The allocation of up to \$2.5 million for administration and not less than \$5.0 for a commercial development fund are retained. Remaining funds are to be allocated competitively for research, testing, and the development of emerging discoveries in each area. Language regarding eligibility requirements is removed.

**Sec. 416. Ethnic Destination Marketing Organizations - DELETED**

Current law requires Travel Michigan to coordinate with ethnic marketing organizations to promote ethnic festivals and events in Michigan target markets. The Executive deletes this language.

**Sec. 419. Port Huron Technical Assistance Center - DELETED**

Allocates \$25,000 of the appropriation for "Job Creation Services" to this Port Huron Technical Assistance Center, one of a number of centers around the state that provides assistance to regional businesses in the areas of government procurement and international trade. The Executive deletes the section.